



Energía Costa Azul LNG Terminal & Pipeline Status Report

*Interagency Natural Gas Working Group and
California Energy Commission Briefing*

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Energía Costa Azul LNG

1.0 Bcf/d



- Approximately \$875M capital cost; includes land, terminal, breakwater, capitalized interest and pre-investment for expansion
- First West Coast LNG receipt facility
- Capacity fully contracted
- Construction more than 69% complete
- Commercial operation early 2008
- Expandable to 2.5 Bcf/d



Energía Costa Azul Terminal



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Tanks 1 & 2



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9% Ni Plates Installation



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Open Rack Vaporizers and Piperacks

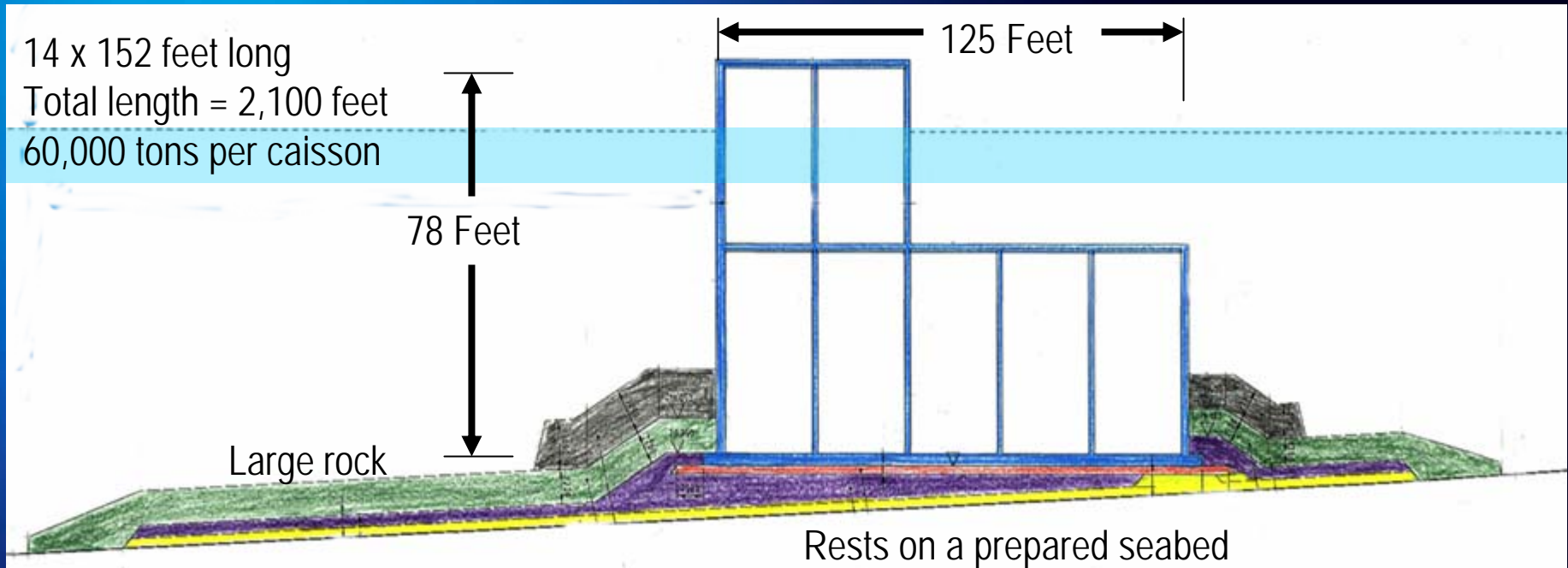


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Marine Works – Jetty Piles



Energía Costa Azul Breakwater Caisson



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Caisson Construction



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Placement of Caisson



Baja California Pipelines Map



Pipeline Status Update: Mexico



- Permits received
- Contractor selected – Henkels and McCoy, Mexico
- Construction underway
- On-schedule for early 2008 start-up
- Interconnect work and SEU system upgrades underway to allow gas flow to Otay Mesa

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Gas Supplies to Mexico & U.S.



Pipeline Status Update: United States



- TransCanada NBP System
- On February 7, 2005, filed with FERC to expand up to 80 miles of existing North Baja Pipeline system (42"– 48" pipeline)
- On October 6, 2006, FERC issued a preliminary determination approving the project subject to the completion of the environmental review process
- Final approvals expected second quarter of 2007
- First phase construction activities are minimal

California Regulatory Milestones



- **California Energy Commission: Integrated Energy Policy Report (IEPR)**
 - Regulatory Milestones: In November 2003, the California Energy Commission embraced LNG as a strategic source of new gas supply and incorporated LNG into their forecasting models and the IEPRs.
- **California Public Utilities Commission: Gas Policy Rulemaking (Phase 1) – Infrastructure Adequacy and Slack Capacity**
 - Regulatory Milestones: In September 2004, the Commission issued a landmark decision that provided for the flow of LNG northbound from Mexico to Southern California at Otay Mesa.
- **California Public Utilities Commission: Gas Policy Rulemaking (Phase 2) – Gas Interchangeability**
 - Regulatory Milestones: In November 2006, the California Public Utilities Commission issued a decision adopting gas interchangeability standards setting the fundamental gas quality standard permitting supplies with a Wobbe Index no higher than 1385 to be delivered into the Sempra Utilities transportation system. Prior to the adoption of the new standards, the utilities could accept natural gas with a Wobbe Index as high as 1437.

California Regulatory Milestones



- **California Public Utilities Commission: Utility Advice Letters Amending Utility Rule 39**
 - Regulatory Milestones: Pursuant to the decision of the California Public Utilities Commission in Phase 1 of the Gas Policy Rulemaking, the Sempra Utilities filed tariffs under which new supplies and interconnections would be added to the Utilities Systems
- **California Public Utilities Commission: SDG&E/SoCalGas Application for System Integration and Firm Access Rights**
 - **5a. Phase I – System Integration**
Regulatory Milestones: In April 2006, the California Public Utilities Commission adopted the concept of “system integration,” relieving LNG suppliers from potentially having to pay pancaked intrastate transportation rates for LNG delivered to the SoCalGas service territory.
 - **5b. Phase II – Firm Access Rights/Off System Delivery Services**
Regulatory Milestones: In December 2006, the California Public Utilities Commission adopted a system of firm rights that included provisions conferring scheduling rights to shippers paying the costs of system upgrades at receipt points on an incremental rate basis.

South Coast Air Quality Management District: Proposed Gas Interchangeability Rules



- As part of its proposed 2007 Air Quality Management Plan, the District is proposing to adopt two rules that will affect the price and/or availability of certain gas supplies, including LNG, to California:
 - CMB-04: Establishes maximum Wobbe Index value of 1360 supplied to sources within District's jurisdiction
 - CTY-01: RECLAIM allocations reduced to offset potential emission increases resulting from introduction of natural gas with Wobbe Index value higher than 1360 (preliminarily estimated at 2.5 tons per day)

Note: The District is evaluating impact of proposed rules, cost effectiveness of proposed rules, and whether explicit legislative authority is required to implement CMB-04

Natural Gas Sources Potentially Affected by District's Proposed Rules



- There are three supply sources directly and/or indirectly affected by the District's proposed rules:
 - Supplies delivered via Kern River Transmission System
 - In-state production
 - LNG supplies
- Which supplies and extent to which any specific supply affected determined by:
 - Outcome of rulemaking (particularly the study of impacts and cost-effectiveness of the proposed rules)
 - Whether rule(s), if adopted, is (are) designated as "feasible measure" and adopted by other APCDs
 - Compliance response and strategies

Possible Compliance Strategies



- If possible to “blend” noncomplying supplies prior to delivery to sources in District (or other applicable jurisdictions), no effect
- Treatment of supplies to meet standards:
 - Removing complex hydrocarbons from supplies prior to delivery to sources
 - Adding inert gases (e.g., nitrogen) to supplies prior to delivery to sources in District
 - Limiting supplies to those with high methane content
- Pending study: Payment of mitigation fees by local distribution company
- CTY-01: if CMB-04 fails, adjust RECLAIM allowances allocated to NOx sources
 - This could prompt tuning and recalibration of burners and abatement equipment at the NOx source to minimize any emission increases

Potential Effects of Proposed Rules on California Gas Balance



- **Compliance is physically possible and feasible**
 - LNG suppliers, including Sempra LNG, have committed to meeting all applicable federal, state and local gas interchangeability rules and standards
- **Nevertheless, costs of compliance may cause diversion of gas to other markets for economic reasons**
 - LNG may find more attractive margins in other Pacific Rim markets – every penny counts
 - Other sources subject to proposed rules may find alternative U.S. markets where margins are unburdened by compliance costs
- **Costs of compliance, all other things remaining equal, will raise market prices**
 - Silver lining to a dark cloud: If all noncomplying sources are affected (e.g., Kern River and California supplies must be treated), diminution of margins for and economic disincentives to entry of LNG may be mitigated

Recommendations re 2007 IEPR



- Energy Commission should consider the potential effects of the District's proposed rule(s) as part of the 2007 IEPR findings re California gas balance and market prices:
 - Price effects related to compliance costs
 - Effects on supplier margins and availability of supplies to Southern California
 - Effects on operation of gas system
 - E.g., injection of inert gases into supply stream will diminish suitability of gas as a feedstock, increase pipeline fuel costs, and/or affect capacity constraints during system peaks
- Broader implications of proposed rules higher prices and/or tightening of supplies, e.g., fuel-switching or industry migration